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Part III: Performance Narrative

A. Challenges

Bosnia and Herzegovina (BiH) was one of the six republics that made up the socialist Federation of the Republic of Yugoslavia. It suffered through a devastating war that destroyed vital infrastructure and bankrupted the country. Since the end of the war it has had to not only recover from the effects of the war, but also to make the transition from a socialist to a democratic society, and from a command to a market-driven economy. Unlike other Eastern European socialist countries, BiH citizens never experienced the collapse of their economy. Their memories of life under Tito's government remain idyllic. Most citizens, rather than looking to the West or to the future, instead view the country's pre-war days as their optimal goal. This unique situation has presented the challenge of having to work to transform a government and economy in a way that citizens do not necessarily understand. In addition, BiH is currently divided into two entities: the Federation containing mostly Croats and Bosniaks (Muslims) and the Republika Srpska (RS) made up mostly of Serbs. In the Federation, the Croats created their own para-state, many elements of which still survive today. The self-governing Brcko District sits in the northern part of the country, belonging to neither entity. BiH's state-level government is structurally weak and possesses few resources to carry out its duties. Harmonizing laws and regulations among these various elements is a constant challenge. Overlaying all of this is the Office of the High Representative (OHR), which was created by the Dayton Peace Accords to implement the civilian aspects of the Accords. OHR has the power to impose or rescind laws. This is often seen as a convenient tool by political parties when they want to avoid the political repercussions of carrying out unpopular measures themselves, as is their responsibility.

Significant gains were made this year when a multi-ethnic coalition, the Alliance for Change, took power at the state level for the first time ever. Challenges for the coming year will include communicating the benefits of multi-ethnic rule, while at the same time, continuing to loosen the hold of national parties, many of which are run by the same people who held power during the war. To this end, many parties in the Alliance received training and support from USAID. FY 2001 saw unprecedented returns of refugees to their pre-war homes, thus contributing to the goal of multi-ethnicity and a return to normal life. USAID was able to support these returns through the provision of needed basic services, however, most still lack jobs or any means of supporting themselves and their families. USAID has begun to address this problem and will continue to address it in 2002 and beyond. Finally, USAID's success in closing down the communist-era Payment Bureaus, and its support for a deposit insurance program coupled with consolidation in the banking sector, greatly improved the climate for business investment in BiH.

B. Program Performance

168-0130: Accelerated Development of the Private Sector

USAID's SO of accelerated development of the private sector, includes three intermediate results. They are: 1) regulations and policies foster private sector development; 2) a market-driven and properly regulated financial services sector; and 3) SMEs effectively compete in a market economy. While some elements lagged behind, specifically regulations and policies that foster private sector development, overall the Mission's targets for this SO were met in 2001. The dissolution of the Payment Bureau's and the subsequent improvement and increase in financial services offered by the banking sector is a significant achievement toward the attainment of the SO.

With funding levels diminishing rapidly, all SO activities are monitored regularly to ensure that available resources are used effectively. For example, when the Corporate Governance for Business Investment Program lagged in achieving desired results, the program was redesigned and the contractor's staff was cut by approximately two-thirds. A pilot mortgage program under the Business Development Program (BDP) was curtailed when legal obstacles to obtaining clear title proved intractable. The lessons learned from such experiences have significantly influenced requests for future funding. Rather than continuing

with the mortgage-lending program, for example, future efforts will be directed at resolving systemic problems that impede private banks from providing mortgage-lending programs. To provide additional support for reform, the corporate governance program will, in the future, work directly with the Prime Ministers in each entity. Close cooperation with other donors will continue to be exercised in order to maximize resources and address political problems. For example, our efforts to create a state level deposit insurance scheme for local banks include GTZ (German) resident advisors, U.S. Treasury Advisors, World Bank conditionality and matching funds from KfW (Germany).

Achievements

Private Sector Development: Under the chairmanship of USAID, the International Advisory Group on closure of the three communist era Payments Bureaus saw its plan successfully completed on January 5, 2001, when all Payment Bureaus ceased processing payment orders and commercial banks took over this activity. In spite of skepticism on the part of international financial institutions that the conversion could be accomplished without disastrous consequences, the new clearing and settlement systems at the Central Bank of Bosnia and Herzegovina, which was financed by USAID, processed approximately 10 million transactions worth KM 13.7 billion (\$6.8 billion) without problems. Parallel systems for collection and distribution of public revenues also performed better than expected. After minor administrative problems that arose in the first two weeks were addressed, public revenue collections actually increased in both entities.

USAID played a key role in drafting and facilitating the passage of privatization legislation, as well as in the establishment of privatization institutions, and training government officials, enterprise managers and the media on the privatization process in both entities. In addition, USAID conducted a public education program throughout the country to increase public awareness and confidence in the process. Although privatization has been hampered by a lack of political will in both entities, strong, unified pressure from the international community was effective in getting the process moving. In the Federation approximately 848 enterprises and 1,896 businesses have been privatized. In the RS approximately 1,000 state-owned enterprises have been sold. In addition, five strategic enterprises have been sold through international tenders with USAID support and several others are in the final stages of negotiation. With the arrival of long-awaited European Union privatization advisors and World Bank loan funds USAID will turn over leadership of the remaining privatization process to these two donors.

An overarching concern for potential investors is corrupt practices. To minimize this problem, USAID emphasizes the creation of systems that maximize transparency and accountability. In Bosnia and Herzegovina the Payment Bureaus always handled collection and expenditure of public revenues. With the closure of the Payment Bureaus, the state and entity governments were, for the first time, able to fully centralize public sector financial management. This makes government spending more transparent and accountable. USAID is assisting the treasuries of both entities by providing them with a modern, computerized financial information management system (FIMS) similar to systems used in several western European nations. The introduction of FIMS has numerous benefits for the average citizen. These include, greater understanding and knowledge of the public budget, confidence that budget monies are spent in accordance with the laws of the land and that their hard earned tax payments are not being squandered. Also, by "plugging the leaks" in the current system, existing tax revenues will go much further in meeting the budget needs.

Due to the fragmentation of BiH's power sector into three ethnically based organizations, inefficiency and high costs have reigned. Efforts to consolidate the sector under the umbrella of the state bore fruit in 2001 with the approval of the first-of-its-kind State-level Electricity Law. Thanks to the efforts of USAID, a law acceptable to all parties was drafted and submitted to the Council of Ministers where it was approved. The passage of the law later this year will be a crucial step in demonstrating the viability of a unified State-level government as envisioned under the Dayton Accords. USAID also played a key role in helping to develop a privatization strategy for the electric companies. The USAID-funded privatization study is serving as a basis for the privatization strategy. The strategy is a precondition to disbursement of

the World Bank's Power Sector III loan which will rehabilitate and improve the electric power system in BiH leading to eventual participation in regional and European power grids.

USAID is also supporting the restructuring of local water management boards (vodovods). One particular focus has been to create a transparent accounting system. USAID developed accounting software for all vodovods and continues to provide advice and support on its use. Forty percent of all vodovods began using the software immediately and have found it to be a useful cost management tool. The remaining vodovods chose January 1, 2002 as the start date in order to begin the use of new systems at the start of their fiscal year.

Properly Regulated Financial Services Sector: Lack of public confidence in Bosnian banks caused the sector to be weak and lack adequate capital for lending. USAID efforts attacked this problem on several fronts. First, efforts to create a cadre of well-trained, motivated banking supervisors in both entities have been highly successful. Vigorous enforcement of banking laws and increased reserve requirements have shrunk the number of banks in the Federation from 55 to 25 private banks and 10 state-owned banks. By the end of 2002 the total is expected to drop to 15. In the Republika Srpska the number is expected to drop from 19 to 5 as the weaker institutions are closed. The USAID Bank Development and Training Project has substantially strengthened local banks by providing instruction and assistance in the areas of asset and liability management, information technology and credit analysis. Finally, USAID efforts to create a Deposit Insurance Agency in the Federation have borne fruit. Since the Federation Deposit Insurance Agency was launched, seven Federation banks have qualified for membership. In the first nine months of operation, deposits in the participating banks increased by 73% to over KM 350 million (\$175 million). In July 2001 USAID launched an effort to extend deposit insurance to the Republika Srpska through the creation of a single, state-level deposit insurance agency. Legislation to create such an institution is currently under consideration in both entity parliaments and the State Parliament.

SMEs: The Business Development Program (BDP), which consists of a Business Finance and a Business Consulting component, continued to make significant progress in the reactivation of the private sector. As of September 30, 2001, 559 loans valued at \$155 million had been disbursed to Bosnian-owned enterprises in almost all parts of the country. These loans generated employment for an estimated 17,500 people. Demand for BDP loans increased sharply in CY 2001. For example, when the program was expanded to Canton 8 in October 2001, over 150 inquiries were received in a period of only two weeks. In September 2001, the BDP program expanded to include a line of credit (up to KM 1 million per organization) for micro credit organizations. This program will assist thousands of individual borrowers as well as strengthening the micro credit institutions themselves. As with any credit program, delinquency and default occur. To address these issues, the BDP staff undertakes an intensive effort to help borrowers who are delinquent adjust their business plan to changing conditions and become current with loan repayments. In some cases loans are restructured. When these efforts fail, USAID initiates foreclosure proceedings, sale of assets and related court actions to recover the loan funds. To date, approximately 18% of the loan portfolio has been in foreclosure. Given the nature of the program and the economy this is consistent with expectations. Over 30 auctions of collateral have been held and eight borrowers in default have repaid their loans in full rather than lose their collateral. BDP lending will end in 2002, as local banks are now capable of filling this role. Sale of the loan portfolio will be conducted in such a manner as to strengthen local banks.

168-0210: A More Participatory, Inclusive Democratic Society

This SO focuses on three intermediate results: 1) Increased citizen participation in political and social decision making; 2) Strengthened legal systems that promote increased access to justice; and 3) More responsive, transparent and accountable governance. The Mission's democracy portfolio has moved from a macro level focus to a focus on the local level where changes can be effected that improve the life of the average citizen and offer them greater opportunities for participation and control over the direction their country takes. The steady progress that has been made in the areas of citizen participation,

governance, and rule of law demonstrates that these programs are on the right track. The Mission plans to continue to work in these areas and has formulated its resource requests accordingly.

As planned, a major baseline survey was conducted in December 2001 for the majority of indicators under this SO. The data is currently being analyzed. Targets will be set by the end of the FY as planned. Approved targets had been set in NGO sustainability and advocacy in the USAID/BiH Strategic Plan. These targets were greatly exceeded.

Achievements

Citizen Participation: USAID's goal of increased citizen participation in political and social decision making is being measured by USAID's NGO Sustainability Index. The goal exceeded expectations for 2001. In 2000, the Index measured 4.9 and a target of 4.8 was set for 2001. While the actual 2001 ratings have not yet been published, USAID/BiH data indicates that BiH NGOs will score far better—approximately 4.4 on the Index. USAID, through its Democracy Network (DemNet) program has trained a core of organizations with sound internal structures, relatively transparent operations, and the professional capacity to undertake local initiatives and sustain their operations.

BiH NGOs made particular advancements in the area of advocacy, improving from 4.5 in 2000, to an estimated score of 3.8 on the 2001 USAID NGO Sustainability Index. One sign of this improvement can be found in the action of USAID's DemNet graduates whom, with the assistance of key international players, became directly involved in NGO legal reform processes during the summer of 2001. Their goal was to encourage government to reform the NGO legal framework into something less restrictive, more supportive of local organizations and more in accordance with international law and best practices. As a result of their efforts NGO legislation has been passed by the RS National Assembly and the State Parliament.

USAID promoted civic initiatives by sending teams of trainers to introduce local communities to effective techniques for holding their elected officials accountable. Groups were taught how to best document the communities' needs, address these concerns to the appropriate municipal officials, and exercise due diligence and persistence in obtaining the desired results. In 2001, the project encouraged democratic development by assisting local community and village residents in creating 206 civic initiatives that will improve their lives.

USAID activities aim to support a viable private sector broadcast and print media that includes a broad range of objective programming. In 2001, USAID assistance helped improve the journalistic integrity, finances, and management of a select group of media outlets, as well as their production capacity. USAID supported the start-up of the first nationwide, multi-ethnic, independent, commercial television network operated by Bosnian-Herzegovinians. The new network, Mreza Plus, includes five core stations located in four cities throughout both entities, in addition to three affiliate stations in additional towns. The network reaches 83 percent of the country's population and is exceeding projections for advertising revenue from major international companies. It led television ratings during prime time after only two months on the air.

On the print side, with USAID help Nezavisne Novine, the leading independent news daily in the RS, received commitments of funding from the Swedish government to build an independent printing plant and an USAID-approved business loan for the same project. The project will lower costs and increase revenue significantly, thus contributing to the paper's long-term viability. The USAID media program contributed directly to the expansion of Nezavisne Novine into markets in the Federation, including Croat-dominated regions—making this the first truly independent daily in BiH with national circulation.

Governance: USAID's election-related activities focus on ensuring that BiH continues the practice of free and fair elections to provide unquestionable legitimacy to governing institutions. USAID-supported NGOs organized and managed the Domestic Election Monitoring Campaign for the November 2000 elections

(in which a multi-ethnic coalition took power at the state level for the first time). Some 300 NGOs participated with 5,000 domestic monitors observing 2,660 polling stations throughout the country. USAID is also providing institution-building support to the Association of Election Officials of BiH (AEOBiH) which is critical to the ability of Bosnians to manage their own elections for the first time in 2002. Nation-wide elections, to be held in October 2002, will be critical, both in terms of administration (how well the elections are financed and implemented) and in terms of political outcomes (the success of multi-ethnic parties vis-à-vis ethnically divided parties).

USAID is promoting efficient parliamentary structures for legislative governance at the entity and state levels. Specific assistance is being provided through NDI to enhance legislative capacity to represent constituents, and to serve their interests by passing necessary laws and balancing executive power.

USAID activities contributed to creating more responsive, transparent and accountable governance in the Brcko District. Throughout FY 2000, USAID advisors worked intensively with the District government to create and adopt a balanced budget for the year 2001. The experience made the successful drafting of the 2002 budget (in which USAID was again consulted closely) far more professional and productive. USAID's two years of collaboration in this process has resulted in a more disciplined budget approach, more transparent spending, greater citizen participation in the budget process and a more rational allocation of resources all leading to more and better service.

USAID also helped strengthen the District's fledgling "public complaints department." A full-time staff is now in place and rules have been established requiring formal responses within seven days. Information gathered continues to be used to determine shortcomings in the government's performance. While the bulk of the 300 plus complaints received have focused on housing return issues, a surprising number of citizens have shown confidence in the system and belief in its purpose to point out sloppy work and non-responsiveness on the part of District employees. Survey results have been shared with the mayor and department heads for remedial action.

Rule of Law: In 2001, USAID made progress toward its goal of strengthened legal systems that promote access to justice by working with courts and legal professionals, personnel and citizens to create a "demand" and a "supply" of justice for ordinary citizens.

On the demand side, USAID strengthened institutions that respond to citizen demand for justice through NGOs, businesses, and other advocacy groups. Among the activities that increased demand and access to justice were training of defense lawyers in human rights, proper procedures and ethics. New activities in 2002 will include a public advocacy center (PAC) for citizens, NGOs, and journalists who have grievances related to freedom of information or other media issues. USAID will also initiate a pilot program to address administrative obstacles to the rule of law at the municipal level, where most civil suits and citizen actions in Bosnia originate. This activity will work to streamline administrative and judicial processes on a variety of levels.

To strengthen the "supply" side of justice, USAID co-sponsored "train the trainers" programs with the two BiH independent judges associations. The initiative helped produce a significant cadre of judicial trainers from both entities. Under the auspices of these associations, a number the trainers subsequently designed and conducted their own interactive training programs for judges in both entities on topics such as civil procedure, criminal procedure and domestic violence. Moreover, in a meeting attended by both entity judges associations as well as the Brcko District Judiciary, USAID succeeded in helping the creation of a cross-entity umbrella organization. With USAID assistance, the Federation drafted a law to reform the profession of the Bar, which will lead to significant restructuring of the Federation Bar from a splintered, ethnically divided set of groups into one unified organization operating under a single umbrella framework. As a result of USAID's efforts, the Federation Parliament is now debating a law drafted to create one unified Bar.

USAID efforts in two areas of legislative reform—civil procedure and an independent court budget—directly led to the development of new draft legislation in the Federation in these areas. These laws are

critical pieces of legislation needed for development of the fundamental legal framework that BiH needs for the process of European integration.

The Brcko District has made significant progress in legal reform, having adopted new criminal and civil procedure codes, as well as a body of 24 laws governing everything from labor to privatization of enterprises. USAID is providing training and technical assistance to two dozen newly hired judges, prosecutors, and defense attorneys for the Brcko Unified Court System.

168-0311: Sustainable Minority Returns

This SO focuses on making minority returns sustainable. There are two intermediate results: 1) access to basic services in target communities re-established; and 2) improved economic self-sufficiency in target communities. Beneficiaries are primarily minority returnees.

Some of the primary factors influencing a person's return to their pre-war home include the availability of housing, basic utilities such as power and water, health services and educational opportunities, and the ability to earn an income and support oneself. The SO exceeded its planned target of providing access to basic services in minority returnee communities. In fact conservative estimates show that the program benefited over half of all minority returns that took place throughout the country. The flexibility of the USAID program has meant that minority return "breakthroughs", i.e. returns by minorities to the currently hard-line communities from which they were cleansed, can be supported and encouraged. As increasing numbers of minorities return to these areas the composition of municipal councils change from mono-ethnic to multi-ethnic once again.

USAID achieved results by creatively leveraging its assistance with other donors to guide location of assistance to priority U.S. areas and to ensure that complete packages of housing, infrastructure and economic assistance were provided in order to "cement" returns. The legislative prohibition against USAID financing housing repair was a particularly useful tool since it allowed us to propose providing support for infrastructure to other donors engaged in housing efforts, thereby accomplishing the maximum effect while significantly reducing the cost of reconstruction per beneficiary.

FY 2002 is the last year of planned funding for access to basic services in accordance with guidance from the Bureau, the SEED Coordinator's Office, OMB and Congress. Future funding in support of minority returns will be focused on economic and income generation opportunities. Re-integrating minorities into the economic life of their communities is critical to ensuring that returnees will be able to stay in their communities. Economic success for minorities will encourage additional returnees and create more multi-ethnic communities.

Achievements

Access to Basic Services in Target Communities: This intermediate result exceeded the planned target for number of minority returns. At the beginning of the strategy period, USAID estimated that 48,000 minority returnees would be assisted through USAID's infrastructure projects, thus increasing the sustainability of their returns. In reality, efforts are benefiting at least 55,000 minority returnees using conservative estimates. (An additional 25,000 majorities benefited as well.) This data is being reported with a high level of confidence having been verified in the field and tracks with the approximately 92,000 returnees registered with UNHCR in CY 2001. This figure does not include non-registered or spontaneous returns.

During the period, USAID implemented a total of 79 infrastructure activities through its general contractor Parsons Delaware. USAID focused on providing basic utilities required for the reestablishment of normal living conditions, such as the provision of power and water. The activities were selected so as to complement, support and guide housing reconstruction being carried out by other donors. Forty power projects restored electricity to 4,390 minority households (the average minority household has from three

to five members). In addition, one power project implemented in Brcko District benefiting approximately 7,500 minority returnee homes. Seven kilometers of roads and four bridges were reconstructed benefiting approximately 1,000 minority families. USAID provided potable water to 2,691 minority-returnee households and reconstructed five health clinics benefiting 635 minority families. In the education sector, USAID reconstructed 11 primary schools and one orphanage. As a result, 2,874 new students are being enrolled in schools and conditions have been improved for an additional 1,022 students.

In FY 2001 basic infrastructure repair and rehabilitation grants were granted to six U.S. NGOs. They are undertaking 13 power projects and 7 water projects in minority return communities. An estimated 2,550 minority returnees will benefit from these grants.

As part of the joint USAID/Croatia and USAID/BiH Cross Border Initiative, USAID funded a study tour for the mayors of BiH municipalities located along the BiH/Croatia border. This is the first phase of a two-part activity aimed at exposing political leaders to problem solving in a multi-ethnic environment and increasing cooperation between municipal officials on both sides of the border. Although the second part of the program will occur during FY 2002, increased minority returns and better integration of return groups have already taken place in some of the participating municipalities.

Improved Economic Self-Sufficiency: In late FY 2001, USAID awarded two economic opportunity grants to benefit minority returnees. Small income generation grants and social loans will be awarded to returnees and their associations. The grants and loans will be used to purchase basic tools and seeds for quick start up of agro-production or for the purchase of commodities, livestock and other goods required for the start of a small business or farm. Up to 1,200 small grants and 650 loans will be disbursed.

Part VII: Environmental Compliance

USAID/BiH is developing Activity Approval Papers (AAPs) for all eight intermediate results. Each AAP requires an Initial Environmental Examinations (IEE). The Mission is working closely with E&E/OM in the development of the AAPs.

All USAID/BiH SOs and related activities are in compliance with their approved Initial Environmental Examinations. Under SO 3.11 (infrastructure repair supporting sustainable minority returns) each project is evaluated to determine whether the potential for negative environmental impact exists. Environmental guidelines include a checklist that is part of the final design of each project. When an analysis indicates that negative effects may occur, the project is adjusted to avoid or mitigate those effects. Guidelines describe procedures for supervising construction activities to assure that identified mitigation measures have been addressed as planned. In all cases, U.S. rules and regulations related to environmental issues are applied in the process of project selection and construction.